



Date Issued: July 7, 2004 SEDC 04-006

Meeting of: July 13, 2004

To: Honorable Mayor and Members of the City Council
Chair and Members of the Redevelopment Agency

From: Carolyn Y. Smith, President

Subject: Approval of a Request for NOFA Funds in an Amount Not to
Exceed Four Million Dollars for the Acquisition of a Site
Located at Hilltop Drive and Euclid Avenue

Reference: Redevelopment Agency Approval of the Exclusive Negotiating
Agreement with Barone Galasso & Associates – May 18,
2004

SUMMARY

Staff Recommendation – That the City Council of the City of San Diego (City Council) and the Redevelopment Agency of the City of San Diego (Agency): (1) approves a request from the Southeastern Economic Development Corporation (SEDC) for Redevelopment NOFA funds in an amount not to exceed Four Million Dollars (\$4,000,000) for the acquisition of an approximate 9.43 acre site located at Hilltop Drive and Euclid Avenue (Site); and (2) approves the Findings of Benefit to the Centre City Redevelopment Project Area.

Other Recommendations – On March 25, 2004, the Executive Loan Committee (Committee) voted to recommend to the Agency approval of the use of NOFA funds to acquire the Site and approval of the Findings of Benefit to the Centre City Redevelopment Project Area.

On March 8, 2004, the Collaborative Review Team (Collaborative) voted to recommend to the Committee approval of the use of NOFA funds to acquire the Site and approval of the Findings of Benefit to the Centre City Redevelopment Project Area.

On January 12, 2004, the Collaborative voted to approve conceptually the use of NOFA funds to acquire the proposed Site.

On January 7, 2004, the SEDC Board of Directors voted to recommend to the Collaborative approval of the acquisition of the 9.43-acre site for the purpose of developing affordable housing.

Fiscal Impact – The funding for the proposed acquisition of the Site is contingent upon the Centre City Redevelopment Project Area's future bond issuance, scheduled for June 2004. The funds for the proposed acquisition would then be available in the Centre City Redevelopment Project Area Low/Moderate Income Housing Set Aside Fund. Exhibit No. 1 outlines the Findings of Benefit this project provides for the Centre City Redevelopment Project Area.

BACKGROUND

The development team of Barone Galasso and Associates, Inc., and Carter Reese & Associates (Developer) is interested in constructing housing on a site located on Euclid Avenue north of Hilltop Drive in the Chollas View Neighborhood, within the Central Imperial Redevelopment Project Area in southeastern San Diego (Site). The largely vacant 9.43 acre Site is zoned for single-family residential development (SF 5000) in the adopted Southeast San Diego Community Plan and the Central Imperial Redevelopment Plan. The Site is comprised of parcels that are currently in third-party ownership. The Developer presently has options on all but four parcels necessary for the project. The four remaining parcels are in various stages of negotiation. Exhibits No. 2a and 2b (the Project Site Map/Proposed Acquisition Map) delineate the Site and the parcels which are currently under contract by the Developer.

SEDC on behalf of the Agency sent Owner Participation Letters, along with the proposed site plan/description, to the property owners on the Site. June 18, 2004, is the deadline to respond to the Requests for Statements of Interest by the property owners. As of this date, SEDC has not received any responses.

DISCUSSION

The Developer is proposing to develop the Site with 120 low-income multi-family rental units and 50 market rate single-family, for-sale attached units. The proposed project requires a Community Plan Amendment, a Site Development Permit, a Planned Development Permit, a Tentative Map and a Rezone. The entitlement process begins with the approval of the initiation of the Community Plan Amendment. Exhibit No. 3 is a table which outlines the development proposal.

The development of this site will require NOFA submittals to be processed in two phases. Phase I is a submittal by the Agency to facilitate its acquisition of the site. Phase II will be

submitted by the Developer in the event that there is a funding gap in the final project. The subject of this specific request is the acquisition of the property by the Agency.

The Acquisition Process

I. Appraisals

In March 2004, SEDC requested that Keyser Marston Associates, Inc., (KMA) prepare appraisals for the properties identified as the Site. The appraisals substantiate the purchase prices negotiated by the Developer. The appraisal also includes valuations for the four parcels that have not been placed in escrow. The appraisals total approximately \$3.7 million.

The current acquisition request of a not-to-exceed \$4 million does not include the costs that may be incurred through the use of eminent domain for the balance of the site (the four remaining parcels). It does, however, provide the Agency the flexibility necessary to complete negotiations without returning to the Agency. If SEDC is unable to reach agreement with the existing property owners on the remaining four parcels, it will exercise one of two options:

1. Submit an additional request for funds that reflects the cost of acquisition through the use of eminent domain; or
2. Proceed with the development by redesigning the site plan to exclude the four parcels. The consequence of Option 2 is a reduction in the number of units that would be produced.

It should be noted that the appraisals prepared by KMA are summary appraisals and are not intended for purpose of condemnation.

II. Relocation

Currently, there are seven tenants and two owner-occupants living in separate single-family dwelling units on the Site. The cost for relocation is roughly estimated at \$280,000. This estimate includes the costs for moving expenses, transportation, price differences in rents for 42 months, moving and closing costs for owner-occupants. In addition, costs may be incurred if a relocation consultant is used to prepare relocation plans, and replacement housing plans and/or is utilized for property management and project management services. This estimate is preliminary and based on discussions with Overland, Pacific & Cutler, Inc., (a relocation consultant), staff at the San Diego Unified School District and the City of San Diego's Real Estate Assets Department.

III. Assignment and Assumption Agreement

The Developer (Barone, Galasso & Associates) has options for the property which have been extended until September 2004. An ENA with the Developer was approved by the Agency on May 18, 2004. The ENA includes a provision that requires the Developer to assign his/her rights, title and interest in the Site to the Agency. Exhibit No. 4 is a copy of the executed ENA and the Assignment and Assumption Agreement.

IV. Developer Loan to the Agency

The ENA provides for a \$37,000 loan to the Agency by the Developer. The loan consists of the good faith deposits previously paid to certain third party owners of certain parcels of the Site. With the execution of the ENA, the loan will be utilized exclusively by the Agency to pay certain administrative costs and expenses incurred in the negotiation and preparation of the Disposition and Development Agreement (DDA).

V. Due Diligence

According to the Phase I Environmental Site Assessment (Phase I), performed in March 2002, no significant adverse environmental conditions were believed to exist on the property based on the information collected at that time. Given that two years have passed since the determination of the initial Phase I, SEDC has entered into an agreement to complete an updated Phase I for the Site.

VI. Conveyance of Site to Developer

During the Collaborative discussion, the question of conveyance to the Developer was raised. Specifically, the question was "will the site be sold or leased to the Developer?" Current negotiations with the Developer anticipate SEDC following the guidelines prepared under the NOFA process. It should be noted that the conveyance is tied directly to the project profoma which is still being developed due to the various unknown costs including potential on/off site improvements, as well as the final number of units that will be allowed as a result of the proposed rezone.

CONCLUSION

The strategy of utilizing the Agency to assemble developable sites and identify qualified developers independent of the process of developers bringing forward affordable housing projects through the NOFA process is essential to the affordable housing equation.

Residential property in southeastern San Diego can be purchased at values which average between \$7.00 and \$10.00 per square foot. The proposed Site is approximately \$10.00 per square foot and will yield approximately 170 units. This is consistent with the goals for affordable housing as established by the Redevelopment Agency and the City Council.

Submitted by:
Laura Roman, Project Coordinator

Approved by:
Carolyn Y. Smith, President

CYS:kk

Exhibit(s):

1. Findings of Benefit
2. Project Site Map/Proposed Acquisition Map
3. Site Development Proposal
4. Exclusive Negotiation Agreement
5. Site Photos